LEVERAGED FINANCE MARKET PERSPECTIVE LETTER

A Consequential Quarter

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The financial markets continue to weather President Trump's chaotic and consequential proposals to reconfigure the global trade order through protectionist policies. Despite Trump's new tariff regime, the equity markets surged to all-time highs in August while credit market yields hover near multi-year tights. Concurrently, Chairman Powell now seems more receptive to lowering interest rates at the Fed's next FOMC meeting on September 17th. The central bank continues to maintain a delicate balance between containing inflation and recent signs of labor market softening. Hopefully, higher tariffs will not cause a seismic shift in the US economy. Companies have thus far avoided higher tariff costs through elevated inventories stockpiled ahead of Liberation Day, but the true cost of the new import levies will become more apparent as these inventories are exhausted and require replenishment at higher prices. In the coming months, investors will be anxiously awaiting decisions from both the Federal Reserve and the Supreme Court, as President Trump's wide-ranging tariff and immigration policies will be ultimately decided in the high court. While lower rates could be a tailwind for growth, higher import levies and shifting dynamics around employment may hinder economic activity. The fourth quarter will be consequential as the outcome of these decisions become known.

Please reach out to InvestorRelations@ShenkmanCapital.com for the full letter.

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